

**REPORT OF THE AUDIT OF THE
LYON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LYON COUNTY FISCAL COURT

June 30, 2006

Romaine & Associates, PLLC has completed the audit of the Lyon County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The county had total net assets of \$5,555,347 as of June 30, 2006. The fiscal court had unrestricted net assets of \$2,633,886 in its governmental activities as of June 30, 2006, with total net assets of \$3,853,750. In its business-type activities, total cash and cash equivalents were \$430,264 with total net assets of 1,701,597. Total debt principal as of June 30, 2006, was \$5,734,714 with \$419,858 due within the next year.

Deposits:

The County's deposits were insured and collateralized by bank securities or bonds during fiscal year 2006.

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Krista Romaine, CPA, Member
Charlotte Clark, Member

Romaine and Associates PLLC

William Erwin, CPA
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CERTIFIED PUBLIC ACCOUNTANTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Sara Boyd, Former Lyon County Judge/Executive
Honorable James Campbell, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lyon County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lyon County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statement. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. *The combining fund financial statements* have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 12, 2007, on our consideration of Lyon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Krista Romaine, CPA

Krista Romaine, CPA
Romaine & Associates, PLLC

April 12, 2007

LYON COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Sara Boyd	County Judge/Executive
Steve Cruce	Magistrate
Buddy Nichols	Magistrate
Charles Ferguson	Magistrate

Other Elected Officials:

Lindell Choat	County Attorney
Hank O'Bryan	Jailer
Sarah Defew	County Clerk
Rebecca Howard	Circuit Court Clerk
Kent Murphy	Sheriff
Janice Stokes	Property Valuation Administrator
Ronnie Patton	Coroner

Appointed Personnel:

Denise Sutton	County Treasurer
JoAnne Dean	Finance Officer

LYON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

LYON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,633,886	\$ 430,264	\$ 3,064,150
Notes Receivable Due Within One Year	6,000		6,000
Total Current Assets	<u>2,639,886</u>	<u>430,264</u>	<u>3,070,150</u>
Noncurrent Assets:			
Notes Receivable Due In More Than One Year	\$ 65,000	\$	\$ 65,000
Capital Assets - Net of Accumulated Depreciation			
Land	232,750		232,750
Land Improvements	495,465		495,465
Buildings	883,586	5,411,333	6,294,919
Vehicles	150,700		150,700
Equipment	420,567		420,567
Infrastructure Assets - Net of Depreciation	<u>560,510</u>		<u>560,510</u>
Total Noncurrent Assets	<u>\$ 2,808,578</u>	<u>\$ 5,411,333</u>	<u>\$ 8,219,911</u>
Total Assets	<u>\$ 5,448,464</u>	<u>\$ 5,841,597</u>	<u>\$ 11,290,061</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	\$	\$ 200,000	\$ 200,000
Financing Obligations Payable	219,858		219,858
Total Current Liabilities	<u>\$ 219,858</u>	<u>\$ 200,000</u>	<u>\$ 419,858</u>
Noncurrent Liabilities:			
Bonds Payable	\$	\$ 3,940,000	\$ 3,940,000
Financing Obligations Payable	1,374,856		1,374,856
Total Noncurrent Liabilities	<u>\$ 1,374,856</u>	<u>\$ 3,940,000</u>	<u>\$ 5,314,856</u>
Total Liabilities	<u>\$ 1,594,714</u>	<u>\$ 4,140,000</u>	<u>\$ 5,734,714</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 1,219,864	\$ 1,271,333	\$ 2,491,197
Restricted For:			
Debt Service		430,264	430,264
Unrestricted	2,633,886		2,633,886
Total Net Assets	<u>\$ 3,853,750</u>	<u>\$ 1,701,597</u>	<u>\$ 5,555,347</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,239,156	\$ 14,371	\$ 736,549	\$ 50,308
Protection to Persons and Property	239,902	10,558	115,149	153,688
General Health and Sanitation	146,111	50,341	41,041	
Social Services	44,706		5,910	
Recreation and Culture	51,071	2,400		
Roads	390,016		655,296	347,490
Interest on Long-term and Short-term Debt	51,870			
Total Governmental Activities	\$ 2,162,832	\$ 77,670	\$ 1,553,945	\$ 551,486
Business-type Activities:				
Public Properties Corporation	\$ 345,275	\$ 424,502		
Total Business-type Activities	345,275	424,502		
Total Primary Government	\$ 2,508,107	\$ 502,172	\$ 1,553,945	\$ 551,486

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

In Lieu Tax Payments

Intergovernmental

Miscellaneous Revenues

Transfers

Interest Earned

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For The Year Ended June 30, 2006
 (Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (437,928)	\$	\$ (437,928)
39,493		39,493
(54,729)		(54,729)
(38,796)		(38,796)
(48,671)		(48,671)
612,770		612,770
(51,870)		(51,870)
\$ 20,269		\$ 20,269
	\$ 79,227	\$ 79,227
	79,227	79,227
\$ 20,269	\$ 79,227	\$ 99,496
\$ 368,297	\$	\$ 368,297
89,091		89,091
56,624		56,624
52,355		52,355
275,217		275,217
56		56
28,249		28,249
5,000	(5,000)	
108,444	17,367	125,811
\$ 983,333	\$ 12,367	\$ 995,700
\$ 1,003,602	\$ 91,594	\$ 1,095,196
2,850,148	1,610,003	4,460,151
\$ 3,853,750	\$ 1,701,597	\$ 5,555,347

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

LYON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>HB 577 Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,211,201	\$ 736,808	\$ 940	\$ 372,386
Total Assets	<u>\$ 1,211,201</u>	<u>\$ 736,808</u>	<u>\$ 940</u>	<u>\$ 372,386</u>
 FUND BALANCES				
Fund Balances:				
Reserved for:				
Encumbrances	\$ 3,717	\$	\$	\$
Unreserved:				
General Fund	1,207,484			
Special Revenue Funds		736,808	940	372,386
Total Fund Balances	<u>\$ 1,211,201</u>	<u>\$ 736,808</u>	<u>\$ 940</u>	<u>\$ 372,386</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets

Total Fund Balances

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources

And Therefore Are Not Reported in the Funds.

Accumulated Depreciation

Notes Receivable is not a current financial resource and therefore, is not reported in the Funds.

Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.

Due Within One Year - Financing Obligation Principal Payments

Due In More Than One Year - Financing Obligation Principal Payments

Net Assets Of Governmental Activities

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 June 30, 2006
 (Continued)

Non- Major Funds	Total Governmental Funds
\$ 312,551	\$ 2,633,886
<u>\$ 312,551</u>	<u>\$ 2,633,886</u>

\$ 3,717

	1,207,484
312,551	1,422,685
<u>\$ 312,551</u>	<u>\$ 2,633,886</u>

\$ 2,633,886

3,605,809
 (862,231)

71,000

(219,858)
(1,374,856)
\$ 3,853,750

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>HB 577 Fund</u>
REVENUES				
Taxes	\$ 566,368	\$	\$	\$
In Lieu Tax Payments	345,522			
Licenses and Permits	14,371			
Intergovernmental	842,092	961,781	104,753	71,383
Charges for Services	46,741		5,740	
Miscellaneous	17,757	32,744	2,365	
Interest	48,820	37,028		12,120
Total Revenues	<u>\$ 1,881,671</u>	<u>\$ 1,031,553</u>	<u>\$ 112,858</u>	<u>\$ 83,503</u>
EXPENDITURES				
General Government	\$ 769,717	\$	\$	\$
Protection to Persons and Property	45,408		151,718	
General Health and Sanitation	140,679			
Social Services	37,206			
Recreation and Culture	32,193			
Roads		299,609		
Debt Service	81,649	181,722		
Capital Projects	107,845	347,490		
Administration	321,170	91,582	29,866	
Total Expenditures	<u>\$ 1,535,867</u>	<u>\$ 920,403</u>	<u>\$ 181,584</u>	<u>\$</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 345,804</u>	<u>\$ 111,150</u>	<u>\$ (68,726)</u>	<u>\$ 83,503</u>
Other Financing Sources (Uses)				
Proceeds of Disposal of Capital Assets	\$ 2,315	\$	\$	\$
Transfers From Other Funds	5,000	18,132	66,000	
Transfers To Other Funds	(113,767)	(4,301)	(2,365)	
Total Other Financing Sources (Uses)	<u>\$ (106,452)</u>	<u>\$ 13,831</u>	<u>\$ 63,635</u>	<u>\$</u>
Net Change in Fund Balances	\$ 239,352	\$ 124,981	\$ (5,091)	\$ 83,503
Fund Balances - Beginning (restated)	971,849	611,827	6,031	288,883
Fund Balances - Ending	<u>\$ 1,211,201</u>	<u>\$ 736,808</u>	<u>\$ 940</u>	<u>\$ 372,386</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 566,368
	345,522
	14,371
47,375	2,027,384
	52,481
	52,866
10,474	108,442
<u>\$ 57,849</u>	<u>\$ 3,167,434</u>
\$	\$ 769,717
31,238	228,364
	140,679
	37,206
	32,193
5,400	305,009
	263,371
46,301	501,636
309	442,927
<u>\$ 83,248</u>	<u>\$ 2,721,102</u>
<u>\$ (25,399)</u>	<u>\$ 446,332</u>
\$	\$ 2,315
46,301	135,433
(10,000)	(130,433)
<u>\$ 36,301</u>	<u>\$ 7,315</u>
\$ 10,902	\$ 453,647
301,649	2,180,239
<u>\$ 312,551</u>	<u>\$ 2,633,886</u>

**LYON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

LYON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

**Reconciliation Of The Statement Of Revenues, Expenditures, And Changes
In Fund Balances Of Governmental Funds To The Statement Of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 453,647
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	501,636
Depreciation Expense	(154,082)
Book Value Assets Disposed	(3,100)
Notes Receivable Principal Received	(6,000)
The issuance of long-term debt (e.g. Bonds, Leases) provides current financial resources to governmental funds, financial obligations, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.	
These transactions, however, have no effect on net assets.	
Financing Obligations principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligation-Principal Payments	<u>211,501</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,003,602</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF FUND NET ASSETS PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

LYON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 430,264
Total Current Assets	<u>430,264</u>
Noncurrent Assets:	
Capital Assets:	
Building	6,060,000
Less Accumulated Depreciation	<u>(648,667)</u>
Total Noncurrent Assets	<u>5,411,333</u>
Total Assets	<u>5,841,597</u>
Liabilities	
Current Liabilities:	
Bonds Payable	<u>200,000</u>
Total Current Liabilities	<u>200,000</u>
Noncurrent Liabilities:	
Bonds Payable	<u>3,940,000</u>
Total Noncurrent Liabilities	<u>3,940,000</u>
Total Liabilities	<u>4,140,000</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,271,333
Restricted	
Debt Service	<u>430,264</u>
Total Net Assets	<u>\$ 1,701,597</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LYON COUNTY
STATEMENT OF REVENUE, EXPENSES, CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
- MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Operating Revenues	
Rent Receipts	\$ 424,502
Total Operating Revenues	<u>424,502</u>
Operating Expenses	
Depreciation	<u>92,667</u>
Total Operating Expenses	<u>92,667</u>
Operating Income	<u>331,835</u>
Nonoperating Revenues (Expenses)	
Interest Income	17,367
Interest Payments	(250,820)
Miscellaneous	<u>(1,788)</u>
Total Nonoperating Revenues (Expenses)	<u>(235,241)</u>
Income Before Transfers	96,594
Transfers Out	<u>(5,000)</u>
Change In Net Assets	91,594
Total Net Assets - Beginning	<u>1,610,003</u>
Total Net Assets - Ending	<u>\$ 1,701,597</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LYON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Cash Flows From Operating Activities	
Rent Receipts	\$ 424,502
Net Cash Provided By Operating Activities	<u>424,502</u>
Cash Flows From NonCapital Financing Activities	
Transfers Out	\$ (5,000)
Net Cash (Used) By NonCapital Financing Activities:	<u>(5,000)</u>
Cash Flows From Capital and Related Financing Activities	
Bond Principal	(190,000)
Bond Interest	(198,718)
Financing Obligations Interest	(52,102)
Miscellaneous Payments	<u>(1,788)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(442,608)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>17,367</u>
Net Cash Provided By Investing Activities	<u>17,367</u>
Net (Decrease) in Cash and Cash Equivalents	(5,739)
Cash and Cash Equivalents - July 1, 2005	436,003
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 430,264</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 331,835
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>92,667</u>
Net Cash Provided By Operating Activities	<u><u>\$ 424,502</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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LYON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lyon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the county is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Lyon County Public Properties Corporation

The Lyon County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Lyon County's financial statements. All activities of the Public Properties Corporation are accounted for within a proprietary fund.

Additional Lyon County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lyon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either *major* or *non-major*. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

HB 577 - The primary purpose of this fund is to account for additional fees and court costs assessed in circuit and district courts. The expenditures are restricted for courthouse debt service and administration expenses.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Emergency 911 Fund, and Poor Farm Fund, which are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquent date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund is rental income. Operating expenses for the enterprise fund include depreciation. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

The Lyon County Public Properties Corporation (PPC) Fund - is a blended component unit of the county. The Public Properties Corporation issues debt to build major facilities or additions. The Lyon County Public Properties Corporation has entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (the "AOC"), in which the AOC wishes to use and sublease all or a portion of certain facilities owned or to be constructed by or on behalf of the County. The Governor's Office for Local Development does not require the county to report or budget these funds.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets added in the current year (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	10-50
Infrastructure	\$ 20,000	2-40

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. *The principal amount of bonds, notes and financing obligations are reported.*

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The State Local Finance Officer does not require the Public Properties Corporation to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of the Lyon County Fiscal Court: Lyon County-Eddyville-Kuttawa Joint Tourism Commission, Lyon County Planning and Zoning Commission, Joint Lyon County Park Board and Pennyrile Westpark Industrial Development Authority.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits of the primary government were covered by FDIC insurance or a properly executed collateral security agreement.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government:	Primary Government		
	Beginning Balance	Increases	Decreases
Ending Balance			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 232,750	\$	\$ 232,750
Total Capital Assets Not Being Depreciated	232,750		232,750
Capital Assets, Being Depreciated:			
Land Improvements	520,753		520,753
Buildings	1,190,856		1,190,856
Vehicles	345,045	19,992	(2,500)
Equipment	403,162	203,381	(7,500)
Infrastructure	421,607	278,263	
Total Capital Assets Being Depreciated	2,881,423	501,636	(10,000)
Less Accumulated Depreciation For:			
Land Improvements	(12,644)	(12,644)	(25,288)
Buildings	(287,903)	(19,367)	(307,270)
Vehicles	(190,510)	(21,727)	400
Equipment	(154,619)	(30,357)	6,500
Infrastructure	(69,373)	(69,987)	(139,360)
Total Accumulated Depreciation	(715,049)	(154,082)	6,900
Total Capital Assets, Being Depreciated, Net	2,166,374	347,554	(3,100)
Governmental Activities Capital Assets, Net	\$ 2,399,124	\$ 347,554	\$ (3,100)
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Building	\$ 6,060,000	\$	\$ 6,060,000
Total Capital Assets Being Depreciated	6,060,000		6,060,000
Less Accumulated Depreciation For:			
Building	(556,000)	(92,667)	(648,667)
Total Accumulated Depreciation	(556,000)	(92,667)	(648,667)
Total Capital Assets, Being Depreciated, Net	5,504,000	(92,667)	5,411,333
Business-Type Activities Capital Assets, Net	\$ 5,504,000	\$ (92,667)	\$ 5,411,333

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 26,512
Protection to Persons and Property	11,538
General Health and Sanitation	5,432
Social Services	7,500
Recreation and Culture	18,878
Roads, Including Infrastructure	84,222
Total Depreciation Expense - Governmental Activities	<u>\$ 154,082</u>

Business-Type Activities

Public Properties Corporation	<u>\$ 92,667</u>
Total Depreciation Expense - Business Activities	<u>\$ 92,667</u>

Note 4. Short-term Debt

A. General Fund

On June 9, 2004, Lyon County voted to participate in the Kentucky Association of Counties Advance Revenue Program (KARP) for the purchase of tax and revenue anticipation notes for the 2005-2006 fiscal year. As a result, \$256,400 was invested on behalf of the Lyon County General Fund with interest earnings of \$5,688 and interest expense of \$4,513. As of June 30, 2006, all principal and interest amounts associated with the notes had been paid.

B. Road Fund

On June 9, 2004, Lyon County voted to participate in the Kentucky Association of Counties Advance Revenue Program (KARP) for the purchase of tax and revenue anticipation notes for the 2005-2006 fiscal year. As a result, \$154,100 was invested on behalf of the Lyon County Road Fund with interest earnings of \$3,418 and interest expense of \$2,713. As of June 30, 2006, all principal and interest amounts associated with the notes had been paid.

Changes in Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Kentucky Advance Revenue Program	\$	\$ 410,500	\$ 410,500	\$	\$
Governmental Activities					
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 410,500</u>	<u>\$ 410,500</u>	<u>\$ 0</u>	<u>\$ 0</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Long-term Debt

A. Public Properties Corporation First Mortgage Revenue Bonds

The Lyon County Public Properties Corporation issued First Mortgage Revenue Bonds, Series 1999 dated January 1, 1999 for \$5,180,000 to be used for the construction of an annex facility. Interest is payable semi-annually for 20 years and varies from 3.9 percent to 5.1 percent. The Lyon County Public Properties Corporation has leased the building to the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), and AOC is providing the debt service payments as prescribed in the aforementioned lease. As of June 30, 2006, Lyon County is in compliance with bond agreement. The principal balance as of June 30, 2006 was \$4,140,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2007	200,000	191,117
2008	205,000	183,118
2009	215,000	174,712
2010	225,000	165,898
2011-2015	1,285,000	675,822
2016-2020	2,010,000	348,250
Totals	<u>\$ 4,140,000</u>	<u>\$ 1,738,917</u>

B. Financing Obligation Agreement - Waterlines

On December 16, 1991, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$130,000 for funding of waterlines for the Lyon County Water District. On May 7, 2001, Lyon County refinanced the financing obligation principal in the amount of \$98,000 interest is payable monthly at a rate of 4.45 percent for 15 years. As of June 30, 2006, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2006 was \$71,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2007	6,000	3,584
2008	6,000	3,270
2009	6,000	2,956
2010	7,000	2,620
2011-2015	38,000	7,385
2016	8,000	244
Totals	<u>\$ 71,000</u>	<u>\$ 20,059</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

C. Financing Obligation Agreement - Road Construction

On August 6, 1998, Lyon County entered into a financing obligation agreement with the Kentucky Area Development District for funding of road construction in the amount of \$1,405,000. Interest is payable semi-annually at a rate of 4.9 percent for 10 years. As of June 30, 2006, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2006 was \$335,000. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2007	165,000	16,415
2008	170,000	8,330
Totals	<u>\$ 335,000</u>	<u>\$ 24,745</u>

D. Financing Obligation Agreement - Courthouse Project

On October 14, 1999, Lyon County entered into a financing obligation agreement with the Kentucky Area Development District for funding for the completion of a courthouse project in the amount of \$1,110,000. Interest is payable semi-annually at an average rate of 5.57 percent for 25 years. The debt service payments related to this project are being made by Administrative Office of the Courts. As of June 30, 2006, Lyon County is in compliance with the terms of the financing obligation agreement. These payments are being made by the Public Properties Corporation on behalf of the Fiscal Court. The principal balance as of June 30, 2006 was \$850,000. Future financing obligations principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2007	5,000	52,105
2008	5,000	51,830
2009	5,000	51,555
2010	5,000	51,280
2011-2015	25,000	252,100
2016-2020	25,000	244,788
2021-2024	780,000	123,085
Totals	<u>\$ 850,000</u>	<u>\$ 826,743</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

E. Financing Obligation Agreement - Sheriff's Vehicle

On November 7, 2002, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a vehicle for the Sheriff's Office in the amount of \$22,688. Interest is payable monthly at a variable interests rates for 3 years. As of June 30, 2006, Lyon County is in compliance with the terms of the financing obligation agreement and the note has been satisfied. The principal paid during the 2006 fiscal year was \$3,307 and the interest paid was \$23.

F. Financing Obligation Agreement - Park Renovation

On June 8, 2004, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for funding of construction at Lee S. Jones Park in the amount of \$400,000. Interest is payable monthly at a rate of 3.78 percent for 10 years. The principal balance as of June 30, 2006 was \$331,185. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2007	36,329	14,455
2008	37,673	12,795
2009	39,067	11,055
2010	40,512	9,257
2011-2014	177,604	17,613
Totals	<u>\$ 331,185</u>	<u>\$ 65,175</u>

G. Financing Obligation Agreement - Sheriff's Vehicle

On June 2, 2005, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a vehicle for the Sheriff's Office in the amount of \$14,691. Interest is payable monthly at a variable interests rates for 2 years. As of June 30, 2006, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2006 was \$7,529. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2007	7,529	211
Totals	<u>\$ 7,529</u>	<u>\$ 211</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 1,806,215	\$	\$ 211,501	\$ 1,594,714	\$ 219,858
Governmental Activities Long-term Liabilities	<u>\$ 1,806,215</u>	<u>\$ 0</u>	<u>\$ 211,501</u>	<u>\$ 1,594,714</u>	<u>\$ 219,858</u>
<u>Business-Type Activities:</u>					
Revenue Bonds	\$ 4,330,000	\$	\$ 190,000	\$ 4,140,000	\$ 200,000
Business-Type Activities Long-term Liabilities	<u>\$ 4,330,000</u>	<u>\$ 0</u>	<u>\$ 190,000</u>	<u>\$ 4,140,000</u>	<u>\$ 200,000</u>

Interest on Long-term Debt on the Statement of Activities includes \$51,870 in interest on financing obligations.

Note 6. Note Receivable

On May 7, 2001, Lyon County entered into a sublease agreement with the Lyon County Water District for the funding of waterlines. The County financed the waterlines through a lease agreement with KACOLT. The Water District then signed a sublease agreement with rental payments, due to the County, in the amount of the debt service requirements. Future receivables are as follows:

	<u>Amount</u>
Due within One Year	\$ 6,000
Due in More Than One Year	<u>65,000</u>
Total Receivables	<u>\$ 71,000</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

For the fiscal year ended June 30, 2004, the County voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Lyon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 425,000	\$ 425,000	\$ 566,368	\$ 141,368
In Lieu Tax Payments	195,000	244,736	345,522	100,786
Licenses and Permits	6,500	6,500	14,371	7,871
Intergovernmental	614,410	760,492	842,092	81,600
Charges for Services	32,000	32,000	46,741	14,741
Miscellaneous	10,000	16,000	17,757	1,757
Interest	12,000	12,000	48,820	36,820
Total Revenues	<u>\$ 1,294,910</u>	<u>\$ 1,496,728</u>	<u>\$ 1,881,671</u>	<u>\$ 384,943</u>
EXPENDITURES				
General Government	\$ 826,053	\$ 990,598	\$ 769,717	\$ 220,881
Protection to Persons and Property	31,528	31,528	45,408	(13,880)
General Health and Sanitation	134,487	163,444	140,679	22,765
Social Services	41,500	58,584	37,206	21,378
Recreation and Culture	97,110	97,308	32,193	65,115
Debt Service	500,000	500,000	81,649	418,351
Capital Projects	10,000	10,000	107,845	(97,845)
Administration	733,721	990,835	321,170	669,665
Total Expenditures	<u>\$ 2,374,399</u>	<u>\$ 2,842,298</u>	<u>\$ 1,535,867</u>	<u>\$ 1,306,431</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (1,079,489)</u>	<u>\$ (1,345,570)</u>	<u>\$ 345,804</u>	<u>\$ 1,691,374</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	\$	\$	\$ 2,315	\$ 2,315
Proceeds of Financing Obligation	500,000	500,000		(500,000)
Transfers To Other Funds	(120,511)	(126,279)	(113,767)	12,512
Transfers From Other Funds			5,000	5,000
Total Other Financing Sources (Uses)	<u>\$ 379,489</u>	<u>\$ 373,721</u>	<u>\$ (106,452)</u>	<u>\$ (480,173)</u>
Net Changes in Fund Balance	<u>\$ (700,000)</u>	<u>\$ (971,849)</u>	<u>\$ 239,352</u>	<u>\$ 1,211,201</u>
Fund Balance - Beginning	<u>700,000</u>	<u>971,849</u>	<u>971,849</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,211,201</u>	<u>\$ 1,211,201</u>

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 985,871	\$ 1,007,923	\$ 961,781	\$ (46,142)
Miscellaneous	20,750	20,750	32,744	11,994
Interest	9,100	9,100	37,028	27,928
Total Revenues	<u>\$ 1,015,721</u>	<u>\$ 1,037,773</u>	<u>\$ 1,031,553</u>	<u>\$ (6,220)</u>
EXPENDITURES				
Roads	\$ 1,128,491	\$ 1,140,756	\$ 299,609	\$ 841,147
Debt Service	5,000	5,000	181,722	(176,722)
Capital Projects			347,490	(347,490)
Administration	187,230	514,612	91,582	423,030
Total Expenditures	<u>\$ 1,320,721</u>	<u>\$ 1,660,368</u>	<u>\$ 920,403</u>	<u>\$ 739,965</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (305,000)</u>	<u>\$ (622,595)</u>	<u>\$ 111,150</u>	<u>\$ 733,745</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	\$ 5,000	\$ 5,000	\$	\$ (5,000)
Transfers To Other Funds			(4,301)	(4,301)
Transfers From Other Funds		5,768	18,132	12,364
Total Other Financing Sources (Uses)	<u>\$ 5,000</u>	<u>\$ 10,768</u>	<u>\$ 13,831</u>	<u>\$ 3,063</u>
Net Changes in Fund Balance	<u>\$ (300,000)</u>	<u>\$ (611,827)</u>	<u>\$ 124,981</u>	<u>\$ 736,808</u>
Fund Balance - Beginning	<u>300,000</u>	<u>611,827</u>	<u>611,827</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 736,808</u>	<u>\$ 736,808</u>

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 70,906	\$ 71,464	\$ 104,753	\$ 33,289
Charges for Services	4,500	4,500	5,740	1,240
Miscellaneous	500	500	2,365	1,865
Total Revenues	<u>\$ 75,906</u>	<u>\$ 76,464</u>	<u>\$ 112,858</u>	<u>\$ 36,394</u>
EXPENDITURES				
Protection to Persons and Property	\$ 163,596	\$ 166,995	\$ 151,718	\$ 15,277
Administration	32,821	36,011	29,866	6,145
Total Expenditures	<u>\$ 196,417</u>	<u>\$ 203,006</u>	<u>\$ 181,584</u>	<u>\$ 21,422</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (120,511)</u>	<u>\$ (126,542)</u>	<u>\$ (68,726)</u>	<u>\$ 57,816</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	\$	\$	\$ (2,365)	\$ (2,365)
Transfers From Other Funds	120,511	120,511	66,000	(54,511)
Total Other Financing Sources (Uses)	<u>\$ 120,511</u>	<u>\$ 120,511</u>	<u>\$ 63,635</u>	<u>\$ (56,876)</u>
Net Changes in Fund Balance	\$	\$ (6,031)	\$ (5,091)	\$ 940
Fund Balance - Beginning		<u>6,031</u>	<u>6,031</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 940</u>	<u>\$ 940</u>

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

HB 577 Fund				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
REVENUES				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 71,383	\$ 11,383
Interest	2,200	2,200	12,120	9,920
Total Revenues	\$ 62,200	\$ 62,200	\$ 83,503	\$ 21,303
EXPENDITURES				
General Government	\$ 337,200	\$ 351,083	\$	\$ 351,083
Total Expenditures	\$ 337,200	\$ 351,083	\$	\$ 351,083
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	\$ (275,000)	\$ (288,883)	\$ 83,503	\$ 372,386
Net Changes in Fund Balances				
Fund Balances - Beginning	\$ (275,000)	\$ (288,883)	\$ 83,503	\$ 372,386
	275,000	288,883	288,883	
Fund Balances - Ending	\$ 0	\$ 0	\$ 372,386	\$ 372,386

LYON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**LYON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

LYON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Local Government Economic Assistance Fund	Emergency 911 Fund	Poor Farm Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 233,218	\$ 40,761	\$ 38,572	\$ 312,551
Total Assets	<u>\$ 233,218</u>	<u>\$ 40,761</u>	<u>\$ 38,572</u>	<u>\$ 312,551</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	\$ 233,218	\$ 40,761	\$ 38,572	\$ 312,551
Total Fund Balances	<u>\$ 233,218</u>	<u>\$ 40,761</u>	<u>\$ 38,572</u>	<u>\$ 312,551</u>

LYON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

LYON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Local Government Economic Assistance Fund	Emergency 911 Fund	Poor Farm Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 46,959	\$ 416	\$	\$ 47,375
Interest	7,514	1,764	1,196	10,474
Total Revenues	<u>\$ 54,473</u>	<u>\$ 2,180</u>	<u>\$ 1,196</u>	<u>\$ 57,849</u>
EXPENDITURES				
Protection to Persons and Property	\$	\$ 31,238	\$	\$ 31,238
Roads	5,400			5,400
Capital Projects		46,301		46,301
Administration		309		309
Total Expenditures	<u>\$ 5,400</u>	<u>\$ 77,848</u>	<u>\$</u>	<u>\$ 83,248</u>
Excess(Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>49,073</u>	<u>(75,668)</u>	<u>1,196</u>	<u>(25,399)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	\$	\$ 46,301	\$	\$ 46,301
Transfers To Other Funds	(10,000)			(10,000)
Total Other Financing Sources (Uses)	<u>\$ (10,000)</u>	<u>\$ 46,301</u>	<u>\$</u>	<u>\$ 36,301</u>
Net Change in Fund Balances	\$ 39,073	\$ (29,367)	\$ 1,196	\$ 10,902
Fund Balances - Beginning	194,145	70,128	37,376	301,649
Fund Balances - Ending	<u><u>\$ 233,218</u></u>	<u><u>\$ 40,761</u></u>	<u><u>\$ 38,572</u></u>	<u><u>\$ 312,551</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Sara Boyd, Former Lyon County Judge/Executive
The Honorable James Campbell, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 12, 2007. Lyon County presents its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Krista Romaine, CPA

Krista Romaine, CPA
Romaine & Associates, PLLC

April 12, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LYON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

Appendix A